

# Taxation Division

## Assistant Director

### Stephen B. Shiffrin

Stephen B. Shiffrin is the Assistant Director in charge of the Taxation Division of the Arizona Department of Revenue.

Steve graduated *cum laude* from Brandeis University in 1967 and earned his Doctor of Laws degree from Yale University in 1973.

In late 1988, as a typical cold and icy Massachusetts winter approached, Steve became enlightened and accepted Paul Waddell's invitation to join the Arizona Department of Revenue as Assistant Director of Revenue for what was then called Tax Enforcement. He has been with the Department ever since.

## Administrators

### Donna McCuin

Corporate Tax Audit

### Tom Waters

Individual Tax Audit



The mission of the Taxation Division is to ensure compliance with Arizona income tax laws and Departmental regulations and procedures through fair and firm enforcement. The Division is composed of two sections, Individual Income Tax Audit and Corporate Income Tax Audit, that are responsible for auditing individual income tax returns, corporate income tax returns, withholding returns, and identifying and soliciting income tax returns from taxpayers who have failed to file tax returns.

# Taxation Division

Although taxpayers may view a tax audit as an earth-shaking experience, the Division views an audit as a cooperative and educational process that promotes voluntary compliance by ensuring that taxpayers pay the correct amount of tax - not more and not less. Passage of the Taxpayer Bill of Rights has reinforced the Department's view that, auditors are charged with fairly determining whether the correct amount of tax has been reported and are responsible for performing audits in a professional and courteous manner with a minimum of disruption to the taxpayer.

## Individual Tax Audit Section

During FY 2000, the Individual Income Tax Audit Section ("ITA") underwent changes that affected all of its employees. Major modifications involved revising its audit programs. As part of its various non-filer programs, the section began identifying taxpayers that have a filing requirement for subsequent unfiled years and notifying those taxpayers informing them of their filing obligation. ITA also instituted a new field audit program. This program focuses on Partnerships, S-Corporations, and Limited Liability Companies (LLC's). In the past limited resources have restricted the ability of the Department to audit such taxpayers. Changes in laws in Arizona and other states have made such entities far more common and the Department is seeing increased number of such entities holding substantial assets in Arizona and throughout the country. The new audit program will focus on multistate entities where the law is especially complex and the opportunities for error most widespread.

With the additional audit programs and the emphasis on customer satisfaction, ITA was split into two areas: *Operations and Support*. *Operations* include the audit teams and the Hearing Unit which will be overseen by the Section Administrator. *Support* area includes Administrative Support and Audit Development. Administrative Support will continue providing clerical support to the rest of the section's operations. The Deputy Administrator will oversee the new Audit Development area and will be involved in developing audit programs and working with the Information Technology function within the section. A newsletter, "What's Developing", is published to keep the sections' employees informed on the latest in new audit development, new developments in existing audit programs, and information on section productivity.

## Corporate Audit Section

As ITA made major changes to its operations, so too did the Corporate Audit Section. The Corporate Section modified its management style to reflect the Department's philosophy of *Employee Empowerment*. During FY 2000, the Section reorganized its field audit operations to remove a layer of management and place a manager on site at each service center who reports directly to the Section Administrator. With this change field auditors are able to make more decisions and receive feedback sooner thus making timely decisions effecting current audit issues. Other benefits observed are that it encourages two-way communication between employees and management by fostering a *team* concept within each Service Center; and the audit teams, historically working autonomously, have begun to provide input regarding operating procedures, thereby, adopting and supporting the Department's philosophy.

## Highlights

- ◆ After months of planning and organizing, the Department opened a fourth Service Center located at I-17 and Agua Fria Freeway (Loop 101). Originally, 16 Income Tax Audit personnel and 10 Corporate Tax Audit personnel relocated to the new office. Among those who relocated are representatives from the Corporate Tax Appeals Unit and Individual Hearing Unit. This will allow for greater customer service enabling the two sections to provide formal hearings, as well as informal conferences, on site for taxpayers in the western and northern areas of metropolitan Phoenix and Northern Arizona.
- ◆ The Corporate Income Tax Nexus Unit made several enhancements to its non-filer program. *Nexus* is defined as the connection required existing between a state and a potential taxpayer such that the state has the constitutional right to impose a tax. The goal of the unit is to educate taxpayers and to get each taxpayer into compliance with their filing requirements. In an attempt to reduce time in research and duplication of work, the Corporate Nexus database was linked to Transaction Privilege & Use Tax's Nexus database. This will allow both sections to share taxpayer information, thus reducing costs of securing delinquent returns while making it easier for taxpayers to work with the Department in both tax areas. Another enhancement was the inclusion of a Nexus Research database coversheet, used to provide timely information, to other sections within the Division, for possible audit leads. In addition to the enhancements, the Nexus Unit expanded its non-filer program to include taxpayers who were identified as owning/leasing property in Maricopa County, and have not filed appropriate tax returns, and Arizona Department of Transportation's listing of trucking companies that utilize Arizona roadways.
- ◆ Due to increased resources and modifications to audit programs, ITA's productivity (audits per hour) during the fiscal year increased 20% and audit goal for the fiscal year was exceeded by approximately 3000 units.
- ◆ The 6<sup>th</sup> Annual Advance Tax Workshop was held March 16<sup>th</sup> & 17<sup>th</sup> at Arizona State University's Business College. This two-day program is directed at enhancing the professional knowledge and skills of the Department's policy staff. The theme for this year's workshop was "Quality and Productivity" encompassing 47 speakers teaching 57 breakout sessions for 203 attendees. Guest speakers included Department of Administration Director Elliott Hibbs as the keynote speaker. Emphasis was centered on promoting quality customer service not only to the general public but also within the Department. Due to the diverse subject matters and quality of the speakers, the attendees responded to a survey giving this workshop the highest average rating to date: 4.13.
- ◆ Access to the World Wide Web was incorporated into the daily operations of the audit sections. This allows the auditors to research tax topics from their desks, thus reducing the time and effort spent in preparing and issuing assessments. The clerical personnel will use the Internet to research for valid addresses for those taxpayers whose correspondence is returned *unknown* or *no forwarding available*. The Division's Intranet webpage has been modified to include a section entitled, *Internet Links*. The page is made up of numerous links to other income tax sites and research information. Enhancements to Division's Internet webpage has allowed taxpayers to obtain appropriate Power of Attorney and Disclosure Certificate forms with minimal effort. This will reduce the time needed to secure valid authorization as well as maintaining the Department's confidentiality policies.
- ◆ Both sections measure the customer service that they provide by the ratings and comments received from taxpayers that have undergone an audit. The goal is to provide quality service to all taxpayers. Because of the disparity in audit volume, the Corporate Section sends a survey to every taxpayer that it audits in the field while the Individual Section sends a survey to a random sample of audited taxpayers. Both sections modified their surveys to reflect current audit standards. During FY 2000, the Division mailed 22,488 Customer Surveys. Approximately 20% of the taxpayers responded, and on a scale of 1 to 5 (5 being excellent), gave an average (weighted) rating of 4.10, a 13% increase from FY 1999.